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FISCAL IMPACT STATEMENT

LS 6687

BILL NUMBER: HB 1240

NOTE PREPARED: Feb 9, 2006

BILL AMENDED: Jan 30, 2006

SUBJECT: ISTEP.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR: Sen. Lubbers

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Spring ISTEP:* This bill provides that the ISTEP test must be administered during the spring semester for school years beginning after June 30, 2007.

Spring Pilot Test: The bill provides for a pilot test of spring ISTEP testing in May 2007.

Diagnostic Assessment: The bill requires the Department of Education, subject to the approval of the State Board of Education, to develop a ten-year plan for student diagnostic and summative achievement assessment before August 1, 2006. The bill removes the requirement for the plan to include online assessments, but requires the plan to include the movement toward online testing and results. The bill also requires the plan to include administering annual student assessments and graduate examinations during the period from May 1 to the end of the school year.

Remediation: The bill allows school corporations to make decisions for remediation of students based on multiple factors, which may include either intra-year diagnostic assessments or end-of-the-year assessments.

Long-Term Contract: The bill requires the Department of Education, the Office of Management and Budget, and the Attorney General to develop a process for a long-term contract with an assessment provider that solicits interest from assessment companies serving school systems in the United States.

BIF Funding: The bill provides for a transfer of money from the Build Indiana Fund (BIF) to the state General Fund for the establishment of a spring ISTEP testing program.

Effective Date: Upon passage; July 1, 2006.

Explanation of State Expenditures: *Spring ISTEP:* Under the bill, the Department of Education would be required to administer ISTEP examinations during the spring instead of the fall for Grades 3 thru 10. The first spring ISTEP examinations would occur in May of the 2007-2008 school year.

Spring Pilot Test: Under the bill, a piloting phase would be implemented in May of 2007. The Department would likely incur additional administrative expenses to pilot new ISTEP examinations for Grades 3 thru 10. Current assessments are based on proficiencies from the preceding grades (Grades 2 thru 9). New assessments given in spring would need to be based on current grade proficiencies. The development of a new test typically involves the following determinations when establishing alignment with a set of state standards: (1) the number of questions; (2) the length of each question; (3) cutoff scores; and (4) test validity and reliability.

Diagnostic Assessment: The Department, with approval of the State Board of Education would be required to develop a plan to assist teachers to diagnose educational needs of students in English, Math, Science, and Social Studies. The plan would have to include assessments for grades K-12, which for Grades 3-12 would move toward an online platform. Also, included in the plan would be a new graduate examination and written essay examinations. The plan would designate that assessments and graduate examinations would be administered annually between May 1 and the end of the school year. The Department estimates the start-up cost of a diagnostic assessment to be \$7.5 M over three years.

Long Term Contract: Additionally, before October 1, 2006, the Department, OMB, and Attorney General would be required to develop a plan to establish a long term contract with a vendor to implement the assessment proposed by the bill. The bid process must be completed by December 31, 2006. A selected vendor that serves school systems within the United States would develop the proposed spring pilot test.

BIF Funding: The bill requires the State Budget Agency to transfer money in FY 2007 from the Build Indiana Fund (BIF) to the state General Fund to defray the cost of the piloting phase in May 2007. The bill provides that the SBA make the transfer with the approval of the Governor. The FY 2005 ending balance in the BIF totaled approximately \$10.5 M. Projections suggest that \$13.8 M could potentially be available in FY 2007 for pilot phase expenses.

(Revised) *Fiscal Information Background:* The current ISTEP vendor CTB/McGraw-Hill has stated that a spring pilot examination in May 2007 could be conducted at a cost of \$4.2 M. The vendor also indicated that if awarded an extension on their existing contract (set to expire on June 30, 2006), they would provide the spring pilot at no cost to the state.

Another testing corporation has indicated they would be willing to match CTB's cost to provide the spring ISTEP if awarded the ISTEP contract, and would absorb the transitional costs from moving the examination from fall to spring.

The actual costs to provide a spring ISTEP would depend on a future contract between the state and the selected vendor.

Additionally, the state will receive federal dollars in future years under the No Child Left Behind Act for Grades 4, 5, 7, and 9 ISTEP+ testing, a portion of which could help offset the costs associated with this proposal.

In FY 2006, \$45,368,114 was appropriated from the state General Fund and from federal funds for ISTEP+ testing and remediation, including the GQE. Of the state General Fund amount (\$31.4 M), approximately \$8.2 M was distributed to eligible school corporations for preventive and regular remediation (not including the GQE which has a separate budget line item for remediation), and approximately \$23.2 M was distributed for test development and administration.

ISTEP Background: ISTEP+ is Indiana's statewide student assessment program, which is administered to Grades 3 thru 10. ISTEP+ is a criterion-referenced test and administered in the fall based upon proficiencies from the previous year. The criterion component of ISTEP+ (which includes English/Language Arts and Mathematics subject areas) measures student performance against the Indiana Academic Standard (an expectation of student achievement developed by the State Standards Task Force).

A 10th-grade student who does not receive a score at or above the Indiana Academic Standard on the GQE may retake the examination during each semester of each grade following the grade in which the student is initially tested. Approximately 58.4% of the tenth grade class in the 2004-2005 school year received a score above the Indiana Academic Standard on both the English/Language Arts and Mathematics portions of the examination.

Background: Resources Available to BIF - The Build Indiana Fund (BIF) receives funds from two sources: (1) surplus Lottery revenue and (2) revenues from gaming taxes and pari-mutuel taxes. Under current statute, surplus Lottery revenue in the Lottery Commission's Administrative Trust Fund is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, the remaining surplus Lottery revenue is distributed to BIF.

Current statute also requires distribution of revenue from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee to BIF. The total annual distribution to BIF from Lottery, gaming, and pari-mutuel sources is effectively capped at \$250 M. This is because the annual distribution of Riverboat Wagering Tax revenue is limited to an amount equal to \$250 M minus the sum of the surplus Lottery revenue and revenue from other gaming and pari-mutuel taxes distributed to BIF during that fiscal year. The required amount of Riverboat Wagering Tax is transferred to BIF from the Property Tax Replacement Fund (PTRF) at the end of the fiscal year.

Distributions from BIF - Under current statute, \$236.2 M annually must be transferred from BIF to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. Money remaining in BIF after the MVETRA transfer is available for state and local capital projects. It is estimated that \$24.3 M will be available for state and local capital projects in FY 2006; and potentially \$13.8 M in FY 2007 assuming that all available funds in FY 2006 are expended. The table below contains actual and projected BIF revenue and spending totals for FY 2004 to FY 2007.

Surplus Lottery and Gaming Revenue & Distributions (Millions)*

Revenues & Distributions	FY 2004 (Actual)	FY 2005 (Actual)	FY 2006 (Projected)	FY 2007 (Projected)
Beginning Balance in BIF**	(0.9)	6.3	10.5	0.0
Surplus Lottery Revenue in Adm. Trust Fund	198.5	189.7	179.6	179.6
TRF Transfer	(30.0)	(30.0)	(30.0)	(30.0)
PRF Transfer	(30.0)	(30.0)	(30.0)	(30.0)
Surplus Lottery Revenue to BIF	138.5	129.7	119.6	119.6
Surplus Gaming Revenue to BIF	111.4	120.2	130.4	130.4
Interest	0.0	0.0	0.0	0.0
Transfers to BIF^	0.0	0.2	0.0	0.0
Total Resources in BIF^^	249.1	256.5	260.5	250.0
MVETRA Transfer	(236.2)	(236.2)	(236.2)	(236.2)
Total Transfers	(236.2)	(236.2)	(236.2)	(236.2)
Amount Available for State & Local Capital Projects	12.9	20.3	24.3	13.8
Amount Allotted to State & Local Capital Projects*^	6.6	9.8		
<p>*Updated 10/17/05. **FY 2007 beginning balance assumes FY 2006 amount available for capital projects is expended. ^FY 2005 amount from loan repayments. ^^FY 2004 and FY 2005 individual resources amounts do not sum to the total resources amount due to rounding. *^Actual totals in FY 2004 and FY 2005.</p>				

Explanation of State Revenues:

Explanation of Local Expenditures: *Remediation:* The bill would allow school corporations to use a variety of indicators (including either intra-year or end-of-year assessments) on determinations to remediate students. This provision would not affect the amount of remediation dollars that the state grants to schools. Therefore, if more students were recommended for remediation as a result of the bill, school remediation of additional students would have to be conducted within their existing remediation grants.

Background: Under current law, state grants are given to schools to remediate students who achieve below state academic standards and for preventive remediation to those students at risk to fall below academic standards. Academic standards must be based in part on ISTEP results for grades tested under the ISTEP program.

Explanation of Local Revenues:

State Agencies Affected: Department of Education; State Board of Education, Office of Management and Budget; Attorney General.

Local Agencies Affected: School corporations.

Information Sources: Wes Bruce, Department of Education; CTB/McGraw-Hill; Harcourt Assessment Inc.; State of Indiana, *List of Appropriations* (July 1, 2005, to June 30, 2007); *ISTEP+ Program Manual 2004-2005*; Department of Education Internet site: <http://ideanet.doe.state.in.us>; Bob Lain, State Budget Agency, (317) 232-3471.

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